

BEFORE
THE PUBLIC SERVICE COMMISSION OF
SOUTH CAROLINA
DOCKET NO. 2010-132-W

IN RE:

Application of May River Water Company,)
Inc. for adjustment of rates and charges for the)
provision of water service.)
)
_____)

DIRECT TESTIMONY OF
THOMAS A. SMITH, III

1 **Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

2 A. My name is Thomas A. Smith, III. My business address is 621 Stephenson
3 Avenue, Post Office Box 13705, Savannah, Georgia 31416.

5 **Q. WHERE ARE YOU EMPLOYED AND IN WHAT CAPACITY?**

6 A. I am employed as the Manager of the Applicant, May River Water Company, Inc.
7 ("May River"). I have been employed in this position since 2009. I am also employed as
8 the Vice President of South Atlantic Utilities, Inc. I have been employed in this position
9 since 1990.

11 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS PROCEEDING?**

12 A. The purpose of my testimony is to sponsor May River's application for an
13 adjustment of certain rates and charges for the provision of water services. Also, I will be
14 providing the Commission with an overview of May River and its operations, including

1 the area in which it is authorized to provide service, an outline of the history of the utility,
2 a description of the facilities used and useful to May River and some of the expenses
3 incurred in providing water service, and an explanation of May River's need for rate
4 relief.

5
6 **Q. WHAT IS YOUR WORK EXPERIENCE AND BACKGROUND WITH MAY**
7 **RIVER?**

8 A. I have worked in various capacities with May River and its predecessor, South
9 Atlantic Utilities, Inc., since approximately 1970. In that year, I began working for South
10 Atlantic primarily assisting my father, who founded South Atlantic in 1968, with the
11 construction of various water systems. Over the years, my summer jobs entailed working
12 on South Atlantic's maintenance crew and I was directly involved in building water
13 systems in Georgia. As well, in 1973, I assisted South Atlantic in constructing the May
14 River System in South Carolina. After graduating from the Georgia Institute of
15 Technology with a degree in Industrial Management and returning to Savannah, Georgia,
16 I began my employment as General Manager for both South Atlantic and a sister water
17 company, Chatham Water Company ("Chatham"). I served in this capacity from
18 approximately 1989 to 1998 where I was responsible for all maintenance of the system,
19 accounts payable and accounts receivable. Prior to 2009, South Atlantic operated in
20 South Carolina in the area currently served by May River Water Company, Inc. By
21 Order No. 2009-66, dated February 17, 2009, the Commission approved the transfer of
22 the May River system to May River Water Company, Inc., and authorized May River to

1 operate within South Carolina and contain all of South Atlantic's South Carolina
2 customers. I have been the Manager for May River Water Company, Inc. since its
3 formation and acquisition of the May River System in 2009.
4

5 **Q. WHAT ARE YOUR JOB RESPONSIBILITIES IN YOUR CURRENT POSITION?**

6 A. Currently, I manage May River's facilities including overseeing water testing and
7 inspecting water systems and well sites. Additionally, I perform these services for three
8 other water companies which are sister corporations of May River: South Atlantic,
9 Chatham and Coastal Georgia Water Company.
10

11 **Q. COULD YOU PROVIDE INFORMATION REGARDING MAY RIVER AND**
12 **THE SERVICES IT PROVIDES?**

13 A. May River Water Company, Inc. was formed in 2009 and provides water service
14 to twenty-eight (28) full-service customers and two availability customers, who are
15 located in the May River Plantation Subdivision, during the test year. These customers
16 are all located in May River's Commission approved service area in Beaufort County.
17 Further, customers are billed bi-monthly as demonstrated by the sample bill included
18 with the Application as Exhibit D.

1 **Q. PLEASE DESCRIBE THE PLANT AND FACILITIES WHICH COMPRISE THE**
2 **WATER SYSTEMS IN THE SERVICE AREA?**

3 A. The water system consists of water mains and distribution pipes which supply
4 water to customers from a single-source deep drilled well. Additionally, the system
5 utilizes a 5,000 gallon supply tank to ensure adequate capacity and pressure to the
6 customers. In order to accurately measure customers' water usage and as part of a
7 program to reduce costs while increasing revenues, South Atlantic, May River's
8 predecessor, installed water meters in 1992.

10 **Q. IS THE COMPANY PROVIDING WATER SERVICE TO ITS CUSTOMERS IN**
11 **CONFORMITY WITH ITS PERMIT FROM THE SOUTH CAROLINA**
12 **DEPARTMENT OF HEALTH AND ENVIRONMENTAL CONTROL ("DHEC")?**

13 A. Yes. As the letter attached to the Application as Exhibit "C" reflects, the
14 Company holds all necessary permits to operate the facilities which DHEC has rated as
15 "Satisfactory." During the test year, May River was not cited by DHEC for any major
16 infractions and did not incur any fines. The Company is committed to operating in an
17 environmentally responsible manner which is a costly undertaking.

1 **Q. WHEN WAS A GENERAL RATE INCREASE LAST REQUESTED BY MAY**
2 **RIVER?**

3 A. South Atlantic filed an application for a general rate increase on behalf of the
4 Community Water System at May River Plantation on September 4, 2007. The
5 Commission issued Order No. 2008-92, dated February 8, 2008, in Docket No. 2007-
6 319-W, approving a rate increase for South Atlantic. After this approval and in
7 accordance with the recommendations of the Commission and ORS in that proceeding,
8 May River applied to the Commission to separate South Atlantic's South Carolina water
9 systems and for approval to transfer these water systems to May River.

10
11 **Q. WHY IS MAY RIVER REQUESTING RATE RELIEF AT THIS TIME?**

12 A. For the test year ended December 31, 2009, May River earned on a per book basis
13 a (194.30%) operating margin (loss) and experienced a net loss of (\$22,897.08). This is
14 based upon per books revenues of only \$11,784.38 and expenses of \$34,681.46. Without
15 rate relief, May River will become unable to meet its financial obligations. Such a
16 scenario places in jeopardy May River's ability to continue to provide safe, reliable and
17 efficient water utility services to its customers.

18
19 **Q. PLEASE SUMMARIZE THE RATE CHANGES AS PROPOSED IN THE**
20 **APPLICATION TO THE COMPANY'S WATER RATE SCHEDULE.**

21 A. Currently, the Company charges \$30.00 per residence per month for water
22 service. This amount includes monthly water consumption of 10,000 gallons. For

1 consumption in excess of 10,000 gallons per month, May River imposes an additional
2 charge of \$2.00 for each additional 1,000 gallons over 10,000 gallons. In its application,
3 May River proposes to increase the full-service water charge to \$65.00 per month or
4 single-family equivalent (“SFE”) for the first 2,000 gallons of water consumed. For
5 consumption exceeding this amount, the following additional fees would be applied:

0 - 4,000 gallons	\$4.50 per 1,000 gallons
Next 2,000 gallons	\$5.50 per 1,000 gallons
Over 6,000 gallons	\$6.50 per 1,000 gallons

6 Additionally, the Company is seeking to increase its currently charged availability fees
7 from \$16.00 per month to \$32.00 per month. These rates, which will continue to be
8 billed on a bi-monthly basis, will allow the Company to earn a reasonable level of
9 revenue while the cost to the customer will remain reasonable, given the size of the water
10 system. Additionally, the division of the Company’s charges for water consumption into
11 three separate “tiers” will encourage water conservation and will allow customers to
12 better manage their individual charges through the amount of water consumed.

13
14 **Q. WHAT HAS MAY RIVER'S EXPERIENCE BEEN WITH THE COSTS OF**
15 **OPERATION SINCE ITS LAST RATE INCREASE?**

16 A. It has been two (2) years since the May River’s last rate increase and, in that time,
17 the Company's expenses have increased across the board. The Company has incurred
18 increased operational expenses such as purchased power, and increases to other expenses,
19 such as taxes, license fees and assessments. Furthermore, increased federal and state

1 regulations have changed the way in which water utilities conduct their business.
2 Additional costs have been placed upon water utilities to comply with more exacting
3 limits in both areas. These increased expenses are reflected in the financial statements
4 included with the Company's application and the testimony of Ms. Jackie Watson which
5 clearly demonstrate that we are operating at a financial loss.
6

7 **Q. WHAT IMPROVEMENTS HAS MAY RIVER MADE TO THE SYSTEM SINCE**
8 **THE LAST GENERAL RATE INCREASE?**

9 A. Although the water system serving May River Plantation is small, the Company
10 has maintained the system and made several improvements which benefit its customers.
11 Included among these are the following:

- 12 • Installation of fencing at the well site;
- 13 • Installation of backflow preventers at each residence;
- 14 • Installation of an hour meter on the well pump;
- 15 • Repair/replacement/installation of meters for certain customers;
- 16 • General repairs on the system;
- 17 • General well site maintenance

18 As well, the Company incurred expenses regarding its legal title to the well, resulting in
19 the recordation of corrective deeds and easements to protect May River's real property
20 interests in the system and the well site.

1 **Q. PREVIOUSLY, WUM'S COSTS TO OPERATE THE MAY RIVER SYSTEM**
2 **WERE ALLOCATED BASED UPON THE NATURE OF THE SERVICES**
3 **PROVIDED. CURRENTLY, MAY RIVER PAYS A FLAT MONTHLY FEE TO**
4 **WUM. COULD YOU EXPLAIN WHY MAY RIVER CHANGED THE NATURE**
5 **OF ITS BUSINESS INTERACTIONS WITH WUM?**

6 A. Certainly. As I mentioned previously, the water system serving the May River
7 Plantation subdivision was previously operated by South Atlantic. South Atlantic
8 provided water and sewer services to its customers in both South Carolina and Georgia.
9 Because the operations of water and sewer public utilities in Georgia, including the
10 establishment of rates, are largely unregulated, the accounting requirements for South
11 Atlantic's South Carolina operations were vastly different. As a result of the difference
12 in regulation between the two states, the Company and ORS encountered difficulties
13 during the audit of South Atlantic in the prior rate case.

14
15 **Q. COULD YOU DESCRIBE THE NATURE OF THESE DIFFICULTIES?**

16 A. Yes. Previously, WUM's costs to provide operational services to the May River
17 Plantation system were allocated based on the nature of the services provided. The
18 reimbursements to WUM were simply expense allocations which were based on actual
19 expenses incurred by WUM. As I understand the nature of an audit in a ratemaking case,
20 the auditor, in this case ORS, seeks to verify the revenue realized and the expenses
21 incurred by the public utility. Because South Atlantic's operations were primarily based
22 in Georgia and, therefore, its operations in that state were largely unregulated, it

1 experienced difficulty in providing documentation for some of WUM's allocated
2 expenses which ORS deemed necessary to verify.

3
4 **Q. DID SOUTH ATLANTIC RESOLVE THESE ISSUES?**

5 A. Yes. As indicated in Commission Order No. 2009-66, ORS, in the course of its
6 audit during the rate case, recommended that South Atlantic segregate its South Carolina
7 operations from its Georgia operations. In order to efficiently implement this
8 recommendation, South Atlantic transferred its South Carolina operations to an
9 independent entity known as May River. Since that time, May River has operated only in
10 South Carolina separate and apart from South Atlantic. As part of this transition, May
11 River elected to remit a monthly service charge to WUM instead of having these
12 operational costs allocated. As the Commission is aware, May River is an extremely
13 small water system serving twenty-eight water customers and two availability customers.
14 Therefore, May River's customer base comprises only 0.3% of the approximately 10,000
15 customers served by WUM and its sister companies in Georgia. Because the vast
16 majority of these operations are unregulated and, therefore, the auditing of these expenses
17 created difficulties for both ORS and the Company, WUM did not believe it feasible to
18 continue allocating these costs for such a small customer base.

1 **Q. COULD YOU EXPLAIN THE MONTHLY SERVICE CHARGE PAID BY MAY**
2 **RIVER TO WUM?**

3 A. May River remits a monthly payment to WUM of \$2,250 (“Management Fee”) to
4 operate the May River Plantation System in South Carolina. This fee appropriately
5 reflects WUM’s price to provide these services. Because WUM charges on a flat basis,
6 May River’s cost to obtain these services is easily auditable, captures the total charges
7 incurred by May River to operate the May River system and eliminates the accounting
8 difficulties inherent with reviewing allocated expenses – especially given May River’s
9 extremely small customer base compared to the operations of its sister companies.

10
11 **Q. ARE THESE CHARGES REASONABLE?**

12 A. Yes, they are. First, as more fully discussed by Jackie Watson, the monthly
13 Management Fee of \$2,250 reflects WUM’s costs to operate the May River system.
14 These costs reflect WUM’s costs of providing personnel, equipment, office space, billing
15 systems, insurance and other similar overhead expenses. Given the size of its water
16 system and the number of customers, if May River incurred these costs independently, its
17 expenses would be much greater. Additionally, at ORS’s request, May River requested
18 and received quotes from other providers who provide similar water operation services.
19 In particular, these services include taking necessary water samples, well and system
20 inspections, system flushing and reporting, meter reading, billing, maintaining necessary
21 South Carolina licenses and permits, regulatory and rate case assistance, and being on
22 call twenty-four hours a day for system interruptions and emergencies. The prices

1 charged by these providers for these services similar to those provided by WUM range in
2 amounts from \$2,125 to \$3,000 per month and is more fully reflected in Exhibits TS-1
3 and TS-2. These quotes demonstrate that the price May River pays for these services is
4 equivalent to what is available in the open marketplace. Therefore, I believe that the
5 Management Fee charged by WUM reflects a price which would be obtained at arms-
6 length and is, therefore, reasonable.

7
8 **Q. DID MAY RIVER EXPERIENCE ANY CUSTOMER GROWTH DURING THE**
9 **TEST YEAR?**

10 A. No, it did not. There is little opportunity for growth in the May River Plantation
11 Subdivision and only two lots remain undeveloped. Therefore, an increase in May
12 River's rate schedule is the only realistic manner in which May River can increase its
13 revenues to a level which exceeds its current expenses.

14
15 **Q. WHAT IS A RATE INCREASE DESIGNED TO ACCOMPLISH FOR THE**
16 **COMPANY?**

17 A. An increase in May River's current rates would generate additional revenues that
18 will allow May River to move closer to being on a sound financial footing, to allow it to
19 raise additional capital, if necessary, and to increase its earnings to a more reasonable
20 level through fair charges to the consumer. Additionally, increased revenue will allow
21 May River to continue to make necessary repairs and operate the system in compliance
22 with regulatory requirements.

1 **Q. ARE THE RATES AND CHARGES PROPOSED FAIR, REASONABLE, AND**
2 **NECESSARY IN ORDER FOR THE COMPANY TO CONTINUE TO PROVIDE**
3 **A SAFE AND RELIABLE WATER SERVICE?**

4 A. Yes. The financial statements and the testimony of Ms. Watson clearly reflect that
5 we are operating at a financial loss. In order to continue to provide quality water
6 services, the Company must have rate relief. The Company believes that the proposed
7 rates fairly distribute the cost to the consumer of providing those services, while at the
8 same time placing May River on a more solid financial footing. It is our belief that the
9 rates requested are reasonable, fair, responsible, non-discriminatory and justified in light
10 of the customer needs, the Company's requirements to meet the customers' needs, and
11 the Company's obligation to do so in compliance with regulations of this Commission,
12 DHEC, and other regulatory agencies with jurisdiction over the Company.

13
14 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

15 A. Yes, it does.


Water Service Provider		Estimate (\$ Amount per month)
MSO Water Systems		\$2,125.00
Lakeside Water Company, Inc.		\$2,250.00
Consolidated Utilities, Inc.		\$3,000.00

BEFORE
THE PUBLIC SERVICE COMMISSION OF
SOUTH CAROLINA
DOCKET NO. 2010-132-W

IN RE:)	
)	
Application of May River Water)	AFFIDAVIT OF LINDSAY MARTIN
Company, Inc. for adjustment of)	
rates and charges for the provision)	
of water service.)	
_____)	

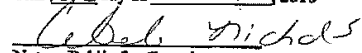
Personally appeared before me, Lindsay Martin who after being duly sworn, deposes and states as follows:

1. I am a citizen and resident of the State of Georgia, am in excess of eighteen years of age and am competent to make this affidavit. The facts stated in this affidavit are within my personal knowledge and are true and correct.
2. I am the Owner and Operator of MSO Water Systems, Inc. ("MSO"), which provides operation, installation, management and maintenance services for water systems owned by private water companies.
3. On November 17, 2010, I issued, on behalf of MSO, a proposal to May River Water Company, Inc. for the management of its water system located in Bluffton, South Carolina ("Proposal"). A copy of the Proposal is attached hereto and incorporated herein as Exhibit "A."
4. As indicated in the Proposal, MSO would charge \$2,125.00 per month for the management of the May River Plantation subdivision water system.


Lindsay Martin

SWORN TO AND SUBSCRIBED BEFORE ME

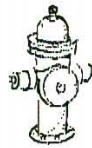
This 18th day of NOV, 2010



Notary Public for Georgia

My Commission Expires: _____

NOTARY PUBLIC FOR GEORGIA
LEIBEL NICHOLS
My Commission Expires 11/18/2011



MSO Water Systems

236 N. Main St.
Statesboro, GA 30458
Phone 912.489.6668
Fax 912-489-5189
www.msowatersystems.com

November 16, 2010

PROPOSAL

Objective

Provide professional assistance in the management of the May River Water System in Bluffton, S.C.

Scope of Services

1. Take all samples for water systems that each state requires.
2. Take samples once a year from customers per state requirements.
3. Inspect the wells and systems weekly for state requirements.
4. Work closely with several State and Local Agencies including DHEC (Department of Health and Environmental Control) and individual customers for state required inspections.
5. Flush systems as needed and record on monthly reports
6. Read meters, record, and bill customers, on a monthly bases.
7. Acquire S.C. Operator's license.
8. Handle next rate case before S.C. Public Service Commission.
9. On call 24 hours for emergencies.

Cost of Services

A fee of \$2,125.00 per month

We appreciate the opportunity to service you and if you have any further questions please feel free to call me.

Sincerely,

Lindsay Martin

Owner/Operator

BEFORE
THE PUBLIC SERVICE COMMISSION OF
SOUTH CAROLINA
DOCKET NO. 2010-132-W

IN RE:

Application of May River Water
Company, Inc. for adjustment of
rates and charges for the provision
of water service.

)
)
)
)
)
)
)

AFFIDAVIT OF DENNIS C. MORRIS

Personally appeared before me, Dennis C. Morris who after being duly sworn, deposes and states as follows:

1. I am a citizen and resident of the State of Georgia, am in excess of eighteen years of age and am competent to make this affidavit. The facts stated in this affidavit are within my personal knowledge and are true and correct.
2. I am the President of Lakeside Water Company, Inc. ("Lakeside"), which provides operation, installation, management and maintenance services for water systems owned by private water companies and owns and operates community water systems.
3. On January 14, 2008, I issued, on behalf of Lakeside, a proposal to May River Water Company, Inc. for the management of its water system located in Bluffton, South Carolina ("Proposal"). A copy of the Proposal is attached hereto and incorporated herein as Exhibit "A."
4. As indicated in the Proposal, Lakeside would charge \$2,250.00 per month for the management of the May River Plantation subdivision water system.

Dennis C. Morris
Dennis C. Morris

SWORN TO AND SUBSCRIBED BEFORE ME
This 17th day of Nov., 2010

Sherri L. Kidwell

Notary Public for Georgia

My Commission Expires: 9/22/13

SHERRI L. KIDWELL
Notary Public, Effingham County
State of Georgia
My Commission Expires September 22, 2013





**LAKESIDE
WATER
COMPANY, INC.**

Water System
and
Pump


- ♦ Repairs
- ♦ Maintenance
- ♦ Operations
- ♦ Installations

Proposal for the Management of
May River Water Company, Inc.
Located in Bluffton, SC

Lakeside Water Company would:

- Be on call 24 hours a day for leak repair and emergencies
- Read meters and handle billings every two months
- Read the well head meter and motor meter weekly
- Inspect the tank weekly
- Take monthly bacteriological test and deliver to lab
- Take Lead & Copper and other required water tests as needed
- Oversee installment of a fence at the well site
- Become a licensed South Carolina operator
- Handle the next rate increase case that is eligible in September 2008
- Exercise all valves
- Implement a water system flushing program

Lakeside Water Company would charge \$__2,250.00__ per month for the management of the May River water system.


Dennis C. Morris, President

____ January 14, 2008 ____

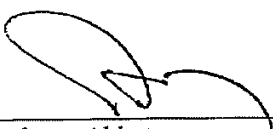
BEFORE
THE PUBLIC SERVICE COMMISSION OF
SOUTH CAROLINA
DOCKET NO. 2010-132-W

IN RE:)
)
Application of May River Water)
Company, Inc. for adjustment of)
rates and charges for the provision)
of water service.)
_____)

AFFIDAVIT OF ANTHONY H.
ABBOTT

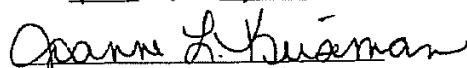
Personally appeared before me, Anthony H. Abbott who after being duly sworn, deposes and states as follows:

1. I am a citizen and resident of the State of Georgia, am in excess of eighteen years of age and am competent to make this affidavit. The facts stated in this affidavit are within my personal knowledge and are true and correct.
2. I am the President of Consolidated Utilities, Inc. ("Consolidated"), which provides operation, installation, management and maintenance services for water systems owned by private water companies and owns and operates community water systems.
3. On November 9, 2010, I issued, on behalf of Consolidated, a proposal to May River Water Company, Inc. for the management of its water system located in Bluffton, South Carolina ("Proposal"). A copy of the Proposal is attached hereto and incorporated herein as Exhibit "A."
4. As indicated in the Proposal, Consolidated would charge \$3,000.00 per month for the management of the May River Plantation subdivision water system.



Anthony Abbott

SWORN TO AND SUBSCRIBED BEFORE ME
This 18th day of November, 2010



Notary Public for Georgia
My Commission Expires: _____



CONSOLIDATED UTILITIES, INC.
119 West Oglethorpe Avenue
Savannah, GA 31401

November 9, 2010

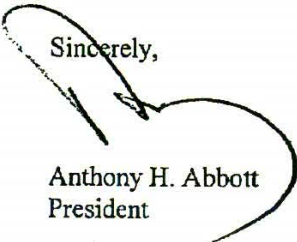
RE: Management of May River Water Company, Inc.
Bluffton South Carolina

Consolidated Utilities, Inc., for the sum of \$3,000.00 per month, would manage the above water system, which would include the following:

1. Obtain a South Carolina operators license
2. Read all meters and bill customers bi-monthly for usage
3. Monitor and read weekly well head and motor meters
4. Weekly tank inspections
5. Perform fecal coloform tests and deliver to the laboratory monthly
6. Perform any and all other required testing, including lead and copper
7. Implement and continue using a water system flushing program
8. Perform valve audit/exercise
9. Provide support services for the next rate increase case before the S.C. PSC at no additional cost, not including attorney's fees and accountant fees.
10. Provide 24 hour on-call staff for emergencies

Thank you.

Sincerely,



Anthony H. Abbott
President